

VZCZCXRO8533
OO RUEHCHI RUEHDT RUEHHM RUEHNH
DE RUEHGO #0412/01 1880432
ZNY CCCCC ZZH
O 070432Z JUL 09
FM AMEMBASSY RANGOON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 9196
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBK/AMEMBASSY BANGKOK 2993
RUEHBJ/AMEMBASSY BEIJING 2350
RUEHBY/AMEMBASSY CANBERRA 2115
RUEHKA/AMEMBASSY DHAKA 5271
RUEHLO/AMEMBASSY LONDON 2195
RUEHNE/AMEMBASSY NEW DELHI 5589
RUEHUL/AMEMBASSY SEOUL 9185
RUEHTC/AMEMBASSY THE HAGUE 0825
RUEHKO/AMEMBASSY TOKYO 6763
RUEHCN/AMCONSUL CHENGDU 1861
RUEHCHI/AMCONSUL CHIANG MAI 2239
RUEHCI/AMCONSUL KOLKATA 0709
RHHMUNA/CDR USPACOM HONOLULU HI
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 2566
RUEHGV/USMISSION GENEVA 4572
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/DIA WASHDC
RUEAIIA/CIA WASHDC
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000412

SIPDIS

STATE FOR EAP/MLS, INR/EAP,
PACOM FOR FPA
DEPT PASS TO USDA
DEPT PASS TO USAID
BANGKOK FOR USDA/FAS
TREASURY FOR OASIA, OFAC

E.O. 12958: DECL: 07/06/2019
TAGS: [EAGR](#) [EFIN](#) [ETRD](#) [PREL](#) [PGOV](#) [BM](#)
SUBJECT: BURMA: CRONIES PROVIDE CREDIT TO DELTA FARMERS

REF: A. RANGOON 181
[1](#)B. RANGOON 389
[1](#)C. RANGOON 25

RANGOON 00000412 001.2 OF 003

Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4
(b and d).

Summary

[1](#)1. (C) Agricultural contacts confirm that the majority of farms in the Irrawaddy Delta have recovered considerably from the aftermath of Cyclone Nargis, enabling them to increase rice production by 10 percent over April 2008 levels. In many areas, soil conditions have improved, and NGOs, the UN, and private Burmese citizens and businesses have provided necessary inputs. While the UN and NGOs predicted in February that lack of access to credit due to the financial crisis would prevent Delta farms from rehabilitating, contacts report that regime cronies have issued farmers lines of credit under new contract farming schemes, providing the needed capital. These contract farming programs have helped boost production, with no reports of land confiscation or loan defaults thus far. However, while Irrawaddy Delta farmers have increased output, they are not necessarily earning more: traders and crony companies continue to pay wholesale prices for rice, enabling them to reap high profits at the farmers' expense. End Summary.

Delta Rice Production Dramatically Improves

¶2. (C) During the first quarter of 2009, Burma's local rice production exceeded local demand, enabling the regime and its cronies to export more than 645,000 metric tons of rice to Africa, the Philippines, and North Korea (septel). SGS Consultants Managing Director U Kyaw Tin estimated that Burma produced more than four million metric tons of rice during the April harvest (the so-called summer crop, since it is harvested during the Burmese dry season), approximately 25 percent higher than April 2008 yields. He noted that production increased by 15-20 percent in Mandalay and Sagaing Divisions due to higher-than-average rainfalls and use of higher quality fertilizers and seeds. U Kyaw Tin estimated that farmers in the Irrawaddy Divisions, particularly in the less-affected areas, increased rice production by 15 percent over last year's summer crop. SGS staff estimate Irrawaddy Delta summer crop production totaled more than two million metric tons.

How the Situation Changed

¶3. (C) WFP Country Director Chris Kaye explained that overall rice production, particularly in the Delta, has been much greater than projected as recently as February 2009, when the UN and NGOs offered dire predictions that lack of access to credit could devastate Burma's agricultural sector (Ref A). According to a WFP March 2009 Food Security Rapid Assessment of Bogalay and Labutta, 10 months after Nargis more than 50 percent of farmers had access to land -- roughly the same as before Nargis. The remaining farmers are

RANGOON 00000412 002.2 OF 003

day-laborers, who work on others' land for wages. Moreover, according to WFP, soil conditions in the Delta have improved considerably since the cyclone. Farms in the southernmost parts of Labutta continue to have salinity problems; however, Kaye pointed out that these lands are used more for salt production than rice production. Farms in northern Irrawaddy Delta are in far better condition, although the majority of farmers in this region highlight that lack of access to credit remains a significant problem. Nevertheless, FAO Crop Specialist Leon Geows told us that the majority of farms in the Irrawaddy Delta successfully planted summer crops, with inputs provided by charitable donations, NGOs, the UN, and private businessmen.

¶4. (C) Delta farms continue to need assistance from international donors, Kaye emphasized (Ref B). While farmers have successfully planted crops, they do not necessarily benefit from higher production. U Kyaw Tin pointed out that farmers are sometimes forced to sell their harvests to the military at low prices (septel), which means they often find themselves unable to cover the cost of production. Increasing prices of inputs will place further financial pressure on farmers. Until the GOB reforms the rice trade system, farmers will work to produce more rice, but will continue to struggle to make ends meet, U Kyaw Tin observed.

Contract Farming Aids Production, But Who Benefits?

¶5. (C) SBS Consultants' U Kyaw Tin asserted that contract farming schemes in northern Irrawaddy Division have played an important role in improving the ability of farmers to plant rice, although they do not guarantee farmers will profit from rice production. According to U Kyaw Tin, after Cyclone Nargis the Ministry of Agriculture established a plan to assist farmers who lost their cattle and/or lacked resources to farm by pairing them with the crony company responsible for reconstructing that area. Crony companies, including Tay Za's Aye Ya Shwe Wa and Htoo Trading, Zaw Zaw's Max Myanmar, and Steven Law's Asia World, participated in the GOB's scheme, providing farmers with in-kind loans of farming

inputs (seeds, cattle, and fertilizer). Per the contract farming terms, farmers were to repay the value of the inputs after they sold the November 2008 monsoon crop (Ref C). U Kyaw Tin noted that because world rice prices in November were low, farmers did not earn as much as expected and could not repay the loans. However, he observed that the cronies, rather than confiscating the farmland as reportedly allowed under the loan contracts, extended an additional line of credit, enabling the farmers to plant a summer crop. Some farmers have since repaid the loans by selling their most recent harvest; others have taken out additional loans to pay for inputs for the monsoon crop, which they will plant in July.

16. (C) The GOB continues to push key businessmen and cronies into contract farming in the Delta. In May, Htoo Trading and Aye Ya Shwe Wa announced they would increase the value of their in-kind agricultural loans for the 2009 monsoon crop, from 8,000 kyat to 50,000 kyat (USD 8-50) an acre for farms in Bogalay and Pyapone. U Kyaw Tin confirmed

RANGOON 00000412 003.2 OF 003

that the terms of repayment for these higher loans are different; instead of repaying in cash, farmers are to provide companies a percentage of the rice crop and sell to the companies an additional amount at wholesale prices. The crony companies will then export this rice at expected higher profits (septel). Although this scheme does not appear to increase the profits of farmers, many are accepting the terms of the loan because they lack other credit options.

Comment

17. (C) Rice production in the Irrawaddy Delta has recovered surprisingly well from Cyclone Nargis, with international donor and private Burmese assistance playing a key part. Crony company loans, under the contract farming scheme, have also contributed to the rebound in production, though the terms of these loans appear to serve the companies' more than the farmers' interests. If commercial credit remains scarce and donor assistance to the Delta declines, more farmers will likely see contract farming arrangements as their only viable option. These farmers are essentially selling their crops at cost and, at least in theory, could risk land confiscation if they default on the loans. WFP Country Director Kaye urges the international community to continue to assist farmers in the Delta through donations of inputs as well as capital through microfinance programs. He points out that such assistance will help farmers increase production, cover their costs, and earn the profits necessary to ensure their livelihoods.
DINGER